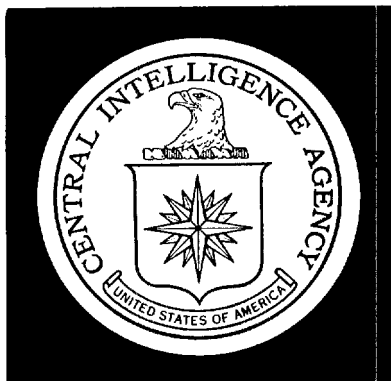


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Soviet Trade with the Free World

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SOVIET TRADE WITH THE FREE WORLD

In the course of the past two decades, Soviet external economic relations have exhibited a shift in emphasis paralleling changes in broader Soviet objectives during the same period. In the 1950s and early 1960s, when Moscow was competing with the West for influence in the newly independent countries, the USSR channeled its economic efforts toward the less developed countries. More recently, however, because of the large technological gap between the Soviet Union and the more sophisticated Western countries, Moscow has emphasized wider economic relations with these nations.

The Soviet Union conducts about one third of its foreign trade with the free world. The industrial Western nations account for two thirds of this and the less developed countries the remainder. Soviet trade with the industrial West, in part because of emergency wheat imports and a willingness to draw down gold reserves to gain modern technology, has grown rapidly in the 1960s. By 1966 orders for plant and equipment that had been cut back during the grain crisis increased to an all-time high, and the USSR began taking greater advantage of long-term credits offered by the West. Soviet trade with the industrial West was the most active sector of Soviet foreign trade in 1968, growing by more than double the rate registered the previous year. Trade with the less developed countries of the free world, on the other hand, has remained relatively static since 1965.

SOVIET HARD CURRENCY POSITION

In trading with the West the present Soviet leadership has pursued the same objectives as the previous regime, but it has been more conservative in the use of hard currency resources. Under Khrushchev, imports of equipment and technology from the West were to be stepped up for "quicker fulfillment of the development program—without wasting time on the creation of plans and mastering the production of new types of equipment." The significant increase in imports from the West after 1958 reflects the implementation of this policy. Soviet gold sales during the period 1959-62 averaged \$250 million annually, well in excess of Soviet gold production. The Soviet payments position was further aggravated during the period 1963-66, when poor harvests forced the USSR to spend \$1.7 billion for im-

ported wheat. These purchases were financed largely by increased gold sales, and by the end of 1965 gold reserves had fallen to about \$1 billion, or one third their level a decade earlier.

Available evidence suggests that on assuming power in 1964 the present leadership believed Soviet gold reserves had reached a critical point; by the end of 1964 Moscow had begun to restrict imports of Western industrial goods and to promote exports, particularly of oil, cotton, logs, and food. The USSR's failure to take fuller advantage of long-term credit facilities offered by the West probably was due to the unwillingness of the Soviet leadership to mortgage future earnings at a time of considerable uncertainty about crop prospects and the ability to expand exports. Short-

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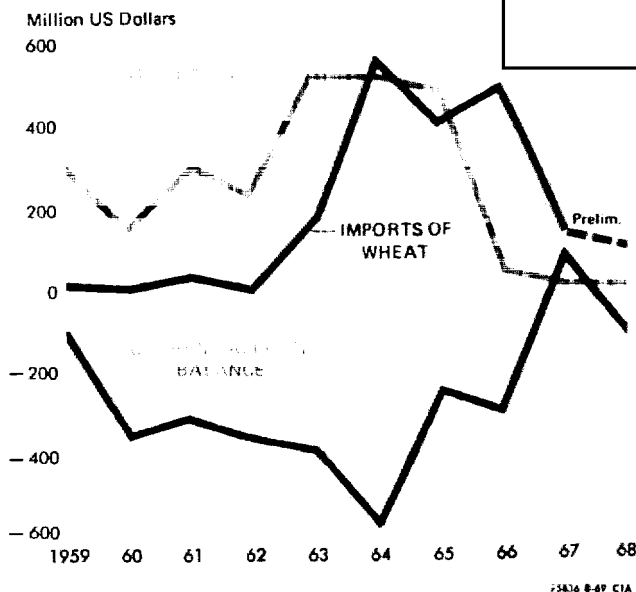
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term credit facilities were used extensively, and Soviet gold sales dropped sharply by 1966.

The shift that year had come about because of good crop prospects and an improvement in the Soviet hard currency balance. The leadership accordingly increased its orders for Western plant and equipment to an all-time high of \$900 million, the Fiat contract accounting for about half the total. The USSR again began taking advantage of the long-term credits offered by the West and has since maintained a high level of orders with the West.

SOVIET HARD CURRENCY BALANCE, IMPORTS OF WHEAT, AND SALES OF GOLD



The improvement continued in 1967, when the USSR had a hard currency surplus for the first time in a decade. Last year, however, rapidly rising imports of machinery and other manufactured goods outpaced Soviet exports and resulted in a hard currency deficit of \$95 million. Gold

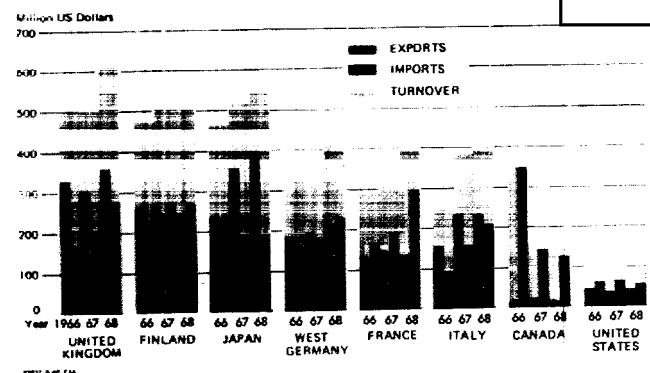
sales remained at about the same level as in 1967—\$10 million—so that gold reserves increased to about \$1.4 billion at the end of 1968.

TRADE PATTERNS WITH THE INDUSTRIAL WEST

Soviet trade with the industrial West in the period 1958-68 grew at a more rapid rate—about 11 percent—than with any other area. The West European countries have accounted for the major share of this trade except during the period 1964-66, when the USSR imported large quantities of wheat from Canada, the United States, and Australia. The USSR's major trading partners in the free world are the United Kingdom, Finland, Japan, and the three largest Common Market countries—France, West Germany, and Italy.

Last year Soviet trade with the industrial West rose over 14 percent to about \$4.2 billion, making it the most active sector in Soviet foreign trade. Soviet exports to hard currency trading partners in this area totaled \$1.74 billion and imports climbed to \$1.78 billion, resulting in a small hard currency deficit. Soviet trade with the industrial West will continue to grow in absolute terms, but the rate of expansion is expected to slow.

SOVIET TRADE WITH SELECTED WESTERN COUNTRIES



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Soviet trade with the United States has more than tripled over the past decade, rising to the present level of about \$100 million. It still accounts for less than three percent of Soviet trade with the industrial West, however, and constitutes less than one fourth of one percent of total US foreign trade. Only in 1964, when it sold almost two million tons of wheat to the USSR, did the United States have a larger share of this trade. This low level relative to that of other Western countries results in part from more stringent US restrictions on trade than maintained by Western Europe or Japan.

Soviet trade with the industrial West features the exchange of Soviet fuels, raw materials, and semimanufactures for Western machinery and other products. The USSR's most notable successes in expanding exports in recent years continue to be in the old standbys—oil, processed timber, vegetable oils, cotton, diamonds, and other raw materials and semiprocessed goods. This pattern persists despite Soviet efforts to diversify the range of products and increase the sale of manufactured goods.

The failure last year for the first time since 1955 to expand petroleum exports may cause an increasing range of difficulties in the future. Petroleum sales have been the largest single earner of foreign exchange during the past several years. Because of the rising domestic consumption of oil, increased commitments to East European Communist countries, and a slower growth in the production of oil, prospects for a reversal of this development are dim.

Machinery and equipment, including complete plants, typically account for roughly one third to one half of total Soviet imports from the West in an average year. The major categories are automotive production equipment, chemical and petrochemical equipment, ships, and wood proc-

essing equipment. The last three years, however, have also seen a rise in imports of plant and equipment for consumer industries.

The largest single category of orders for Western machinery and equipment in 1966-68 has been for passenger car production facilities, totaling \$583 million. The volume of contracts for chemical and petrochemical equipment for the manufacture of plastics and synthetics, fertilizer, and agricultural chemicals has been consistently high since the beginning of the Soviet purchasing program in 1959.

SELECTED SOVIET COMMODITIES TRADED WITH THE INDUSTRIAL WEST

Commodity	1958		1967	
	Value Million US \$	Percent	Value Million US \$	Percent
Exports				
Total	682	100.0	1,885	100.0
Petroleum and petroleum products	98	14.4	445	23.6
Coal and coke	53	7.8	104	5.5
Wood and wood products	125	18.3	322	17.1
Cotton fiber	22	3.2	108	5.7
Base metals and manufactures	86	14.1	204	10.8
Food	85	12.5	144	7.6
Furs and pelt	34	5.0	55	2.9
Other and unspecified	169	24.8	503	26.7
Imports				
Total	633	100.0	1,782	100.0
Machinery and equipment	194	30.6	670	37.6
Base metals and manufactures	162	25.6	130	7.3
Chemicals	22	3.5	186	10.4
Wheat and wheat flour	17	2.7	147	8.2
Manufactured consumer goods	53	8.4	222	12.5
Other and unspecified	185	29.2	447	25.1

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Well over half the value of contracts for ships during 1966-68 covered 18 refrigerator ships and their special equipment, most of which are destined for the Soviet fishing fleet. Among contracts in the timber and wood processing category during 1966-68, the most outstanding is a recent one with Japan for equipment valued at \$133 million to exploit Siberian timber resources.

Plants and equipment for consumer industries are gradually accounting for a larger share of

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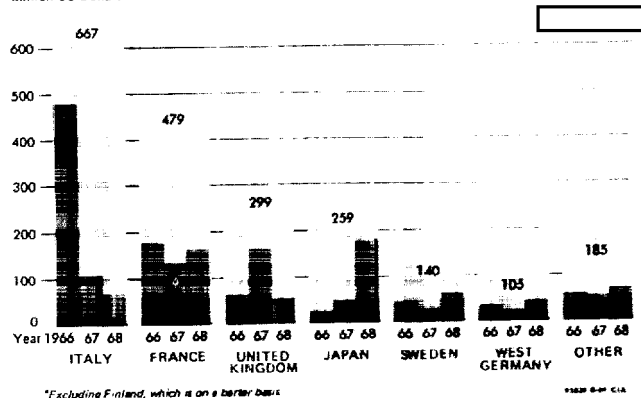
Soviet orders. Contracts for food processing and textile-manufacturing plants and equipment alone were valued at about \$300 million over the period 1966-68, and there has been a series of contracts for plants to produce such items as footwear, home refrigerators, ballpoint pens, and color television picture tubes.

WESTERN EUROPE IN FOREFRONT

Italy is in the forefront of countries favored with Soviet contracts during the past three years. This is largely because of the Fiat contract, which accounts for more than two thirds of Soviet-Italian contracts valued at more than \$650 million. France has been a major supplier of capital goods in recent years, furnishing automotive production facilities, textile and chemical plants, and refrigerator ships. Contracts signed with the United Kingdom have been more varied, including a large volume of machine tools as well as metallurgical equipment and textile plants. Orders with the United Kingdom fell off sharply in 1968, however, dropping from nearly \$170 million in 1967 to about \$60 million last year.

USSR: VALUE OF ORDERS FOR PLANT AND EQUIPMENT FROM THE INDUSTRIAL WEST BY COUNTRY*, 1966-68

Million US Dollars



Other major free world suppliers have been Japan, Sweden, and West Germany. Prior to the 1968 contract to develop Siberia's timber re-

sources, Japan had received relatively few equipment orders. Sweden has been a steady, though relatively small, supplier for a number of years. In 1968 it secured more than \$37 million worth of contracts for ships as well as large contracts for automatic telephone equipment and other items. The total of these orders nearly doubled that of 1967. West Germany, Eastern Europe's chief European supplier, has a declining share of Soviet contracts. Contracts in 1966-68 constituted a mixed bag of plants and equipment, but a significant agreement concluded this year provides for assistance in the fabrication of large-diameter steel pipe to transport Soviet natural gas from deposits in Arctic Siberia to processing centers in the European USSR.

The future level of Soviet imports from the industrial West will continue to depend on the Soviet payments position. Even within this limitation, however, the recent high level of orders for plant and equipment may fall as the USSR shifts to increased imports of technical data. The current leadership has encouraged scientific and technical agreements with Western countries and firms, the most important of these being with France and the United Kingdom. In the Kremlin's eyes, the acquisition of Western technology will save foreign exchange and at the same time reduce research and development costs in the USSR. The USSR may also increase cooperative business ventures with firms in the industrial West in its drive to acquire Western technology as economically as possible.

TRADE WITH THE LESS DEVELOPED COUNTRIES

Since the beginning of the so-called Soviet economic offensive in the less developed countries in 1954, the USSR has extended almost \$6.5 billion in economic credits and grants, and Soviet trade with these areas has increased sevenfold. This trade was stimulated both by the flow of

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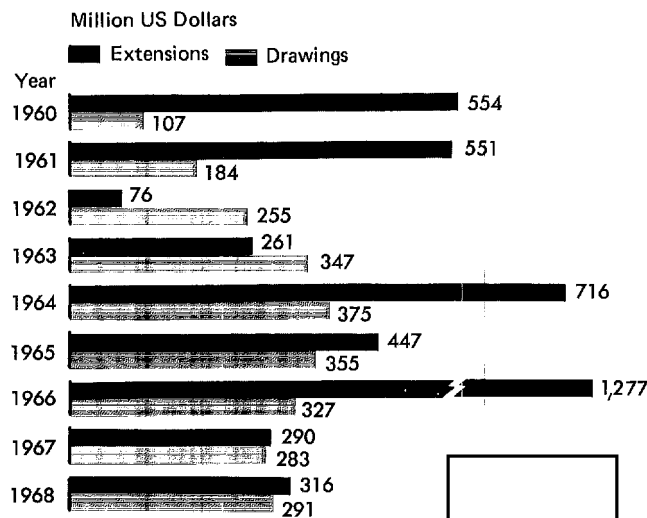
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Soviet aid and by Soviet purchases of the major exports of many of these countries, who hope to expand their markets abroad.

Since 1965, however, the general level of Soviet trade and aid activity with the less developed countries has changed little. Annual drawings of economic aid have declined, in large part because of slow progress on a number of major investment projects. To ensure more effective use of this aid, Soviet authorities have been exercising a greater selectivity in the types of projects and a more sophisticated concern with the capacity and repayment ability of the less developed countries. Thus the USSR now extends relatively few comprehensive lines of credit covering multiple undesignated development projects, preferring instead to allocate aid for specific purposes. As a result, Soviet credits on the average now tend to be smaller.

SOVIET ECONOMIC AID TO LESS DEVELOPED COUNTRIES



The USSR has taken a number of steps to raise the level of its commercial trade with the less developed countries. Consonant with its propaganda line that trade must be the basis for per-

manent, growing economic ties, the USSR in 1967-68 concluded several short-term commodity agreements covering purchases of tropical products. The USSR also has made several agreements to buy some of the products of industrial enterprises built with Soviet aid, such as steel rails from India. The shift toward greater emphasis on trade rather than aid relations with the less developed countries is further reflected in the growing number of Soviet credits that have been extended since 1965 on quasi-commercial terms, including higher interest rates and shorter repayment periods.

TRADE GROWTH SLOWS

Soviet trade with the less developed countries over the 1959-68 decade increased at an annual average rate of about eight percent, slightly lower than the growth of total Soviet foreign trade. In 1968, growth in trade with this area reached only 3.5 percent. After ten years and \$2.6 billion in economic aid deliveries, the less developed countries in 1968 accounted for nine percent of total Soviet foreign trade, reaching an all-time high of \$1.8 billion.

The major recipients of Soviet economic aid—Egypt and India—are also the USSR's leading trade partners in the less developed areas. Together they account for almost half the Soviet trade with this area. Malaysia is also among the more important trading partners of the USSR, usually receiving annually from it more than \$100 million in hard currency for natural rubber.

The lack of substantial growth in Soviet trade with the less developed countries since 1965 is attributable to Soviet unwillingness to absorb larger quantities of primary commodities from those countries and a lack of interest by the less developed countries in Soviet machines and equipment. An actual decline in imports of rubber from Malaysia occurred in 1967.

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Furthermore, economic aid deliveries have remained at only about \$300 million annually since 1965.

The commodity composition of Soviet trade with the less developed countries has not changed appreciably during the last few years. Exports of machinery and equipment account for roughly one half of all Soviet exports to these areas; more than half this category consists of complete plants. Soviet petroleum exports to the less developed countries have become less important as deliveries to India, Brazil, and Ceylon have declined.

Textile fibers, natural rubber, and food make up the bulk of Soviet imports from the less

developed countries. Imports of cotton, however, particularly from Egypt, have been declining since 1965. The drop in food imports since 1967 reflects the completion of Argentine wheat deliveries in 1966.

Economic considerations are causing Soviet officials to seek more balanced trade with less developed countries. To prevent any expansion of Soviet cash outlays for goods from these countries, however, the USSR is promoting commodity exchange agreements with individual traders—in essence, barter type arrangements. It is also encouraging increased purchases of Soviet goods under governmental clearing agreements to prevent the build-up of large unexpended balances.

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